

OPEN FOR BUSINESS:

*Action Plan to Make San Diego
the Most Friendly City in America
for Small Business*



Office of Councilmember Carl DeMaio

July 21, 2010



Executive Summary

As a former small business owner himself, San Diego City Councilmember Carl DeMaio took office with a pledge to make city government more helpful to small businesses. Supporting Small Businesses not only helps to create jobs for San Diego's working families, but it generates tax revenues to help fund City services.

On January 12, 2009, DeMaio laid out a Small Business Tax and Regulatory Reform Proposal that included reforms to the city's small business and rental tax programs with a call to review all city policies that affect small businesses.

Further information was gleaned from a series of Town Hall forums on small business issues, meetings with business and trade organizations, surveys of small business owners and research of best practices from cities and counties across the nation.

This report presents a summary of the challenges raised by small businesses – and outlines several recommendations as to how the City of San Diego can help small businesses succeed.

Four themes emerged regarding the challenges faced by small businesses, including: technical assistance and advocacy, permitting and code enforcement, keeping taxes and fees low and access to city contracts.

Recommendations

Through examination of the City's current practices and comparison to best practices from other cities, several recommendations were developed to help improve the City's promotion of small businesses:

Soliciting Feedback from Small Businesses

Town Hall Forums

Surveys of Owners

Trade and Business Groups

Best Practice Research

Four Themes on Small Business Challenges

City Permitting

Taxes and Fees

Advocacy &

Technical Support

Access to City Contracts

1 Reform 1: Achieve 95% of Permitting Transactions Online Within 5 Years

The City of San Diego is woefully behind the times in using the Internet to interact with small businesses. Within five years, the City of San Diego should achieve the goal of conducting 95% of all permit and license transactions online.

To jumpstart this migration, the City should follow the lead of New York City and pick one industry – most likely restaurants – to create a fully interactive “Online Wizard.”

2 Reform 2: Strengthen and Expand Business Improvement Districts (BIDs)

Business Improvement Districts should become the primary vehicle for technical assistance and issue advocacy for San Diego’s small businesses. To achieve this, the City should actively work to expand Business Improvement Districts to cover a larger portion of the city – and should explore the potential of BIDs to provide value-added services to specific industry segments.

3 Reform 3: Redefine the Role of the City’s Office of Small Business

The Office of Small Business should be transformed from a “paper pushing” operation to a “problem solving” hub. To achieve this, the current focus of the office of administering the finances of the City’s BIDs should be changed to use “performance-based contracts” to alleviate administrative burdens for City and BID staff alike.

A representative from each department with “high touch points” with small businesses (such as Development Services Department) should be partnered with remaining OSB staff to create a true “one stop center” for small business assistance.

4 Reform 4: Consolidate Small Business Enhancement Program Grants

The Small Business Enhancement Program (SBEP) grants are spread too thin, jeopardizing their ability to have a meaningful impact on services to small businesses. As such, the City should use a reformed process for achieving outcome-driven grant allocations. The recently reformed process for Community Development Block Grants represents a model that could be explored for consolidating limited SBEP grants to achieve more meaningful outcomes for small businesses.

5 Reform 5: Streamline Special Event Permitting and Management

Given the strategic importance of the tourism industry to San Diego and the role special events play in small business promotion, the City should overhaul its processes and costs for special events conducted within the city. The process should be modified to include practices that promote the transparency of City operations and allow for the waiver of City service cost-recovery fees for special event organizers.

6 Reform 6: Explore Countywide Business Licenses

As a long-term step to consolidated and uniform governmental regulations on small businesses, the City should explore the development of a countywide business license and potentially a countywide permit for specific types of small businesses.

7 Reform 7: Expand Access to City Contracting Opportunities

To expand awareness of contracting opportunities in city government, the City should post all city contracts online in searchable format – and implement an e-procurement portal for small businesses to receive solicitations for and bid on city contracts. To make city contracts more attractive for small businesses to win and work on, the city should streamline its rules and regulations on contracts to reflect more standard industry contracting processes and requirements.

8 Reform 8: Resist Tax and Fee Increases

Higher taxes and fees increase the operating costs of small businesses. Over the past two years a number of fees have increased – most notably water rates and permit fees.

The city's so-called "full cost recovery" policy is a worthy one, but only if the city's operating costs (salaries, pension benefits, staffing levels) are in line with competitive industry benchmarks. The city can hardly make the case that it is operating at peak efficiency, which is why there are ample opportunities to contain or reduce current fee levels for a variety of costs incurred by small businesses.

Committing To Take Action

Some of the ideas in this report can be implemented in the next twelve months – others will take 2-5 years to fully achieve. We urge city leaders to view this report as the starting point of discussions on ideas for helping small businesses.

Specifically we recommend that the Mayor and City Council resurrect a practice city leaders successfully used in the 1990s to listen to small business concerns by convening a “Regulatory Flexibility Day.” These recommendations will also be submitted to the City’s Commission on Revenue and Economic Competitiveness for their review.

City government cannot guarantee the success of small businesses – but city government can make it harder for a small business to succeed. These eight reforms are designed to ensure that San Diego city government is a net help, rather than a net hindrance, to the success of our region’s small businesses.

A summary timeline of suggested reforms is provided in the table below.

Short Term (within 1 year)	1 to 3 years	Long Term (3 to 5 years)
<ol style="list-style-type: none"> 1) Small Business Enhancement grant application revision 2) Reform BID finance administration 3) Provide additional permitting and code enforcement information of the City’s website 4) Post all request for proposals online 	<ol style="list-style-type: none"> 1) Reform the special event permitting process 2) Establish a single point of contact program in the Development Services Department 3) Establish a pilot program for an online permitting wizard for at least one industry sector 4) Explore expanding the scope of BIDs throughout the City 5) Ensure alignment of contracting qualification with industry standards 	<ol style="list-style-type: none"> 1) Develop an online “one-stop shop” resource for business owners which includes a permitting wizard 2) Facilitate exploration of a countywide business license 3) Allow vendors to register and prequalify for City contracts online

The City of San Diego interacts with small businesses as well as other jurisdictions in a variety of ways including permit processing, tax administration, technical assistance, advocacy and contracting. Minimizing the burden placed on small businesses can help to foster an environment where business owners can spend more time worrying about running their business, as opposed to dealing with administrative matters with City government. The following section describes the current availability of online permitting processes in the City of San Diego as well as other jurisdictions.

1 Reform 1: Achieve 95% of Permitting Transactions Online Within 5 Years

Small Business Startup Information:

A primary resource for small businesses and startups in San Diego is the City's Office of Small Business (OSB). The Office receives more than 5,000 calls per year regarding small business assistance. This volume of calls and the amount of time that must be spent to satisfy each inquiry often result in long wait times and potential confusion for small business owners. Further, many calls are referred to a partner organization or department, such as the Small Business Development Center, the U.S. Small Business Administration, or a similar organization.¹

The reliance of small business owners on OSB staff can potentially be explained by the lack of detailed information and resources provided through the City's website. Small business owners are provided limited information to help them determine which City, State, and Federal regulations, permits, and guidelines apply to them. The following best practices from other cities demonstrate examples of useful information and resources that could be provided through the City of San Diego's website but currently are not.

City of Sacramento²

On the "Doing Business in the City of Sacramento" section of their website, the City provides a comprehensive list of downloadable permits applications accompanied by a description of the types of businesses that must apply for each of the permits.

City of Los Angeles³

The Business Services section of the City's website includes a "Most Popular Downloads" section which provides downloadable applications for the permits most commonly requested by business owners. Additionally, the site includes links to important resources outside of the City, including a link to the Secretary of State to check business name availability and a link to an application to file a DBA with the County of Los Angeles.

City of San Jose⁴

The City of San Jose provides a comprehensive list of all permit issuing departments within the City, along with a description of the types of businesses that must obtain permits from each department. Similar to the City of Los Angeles, the City's website also contains links to several important outside resources.

¹ Correspondence with Office of Small Business. April, 2010

² <http://www.cityofsacramento.org/webtech/business/business.htm>. Accessed June 15, 2010.

³ http://business.lacity.org/most_popular_downloads/index.htm. Accessed June 15, 2010.

⁴ <http://www.sanjoseca.gov/business.asp>. Accessed June 15, 2010.

RECOMMENDATION:

The City of San Diego could reduce business owner dependence upon City staff by increasing the resources provided on the City's website. More specifically, the City should develop a reference similar to the City of Sacramento that provides a comprehensive list of all permits issued by the City along with a description of the types of businesses that must apply for each permit. In addition, the City could provide links and contact information to third-party small business resources such as the partner non-profit organizations funded by the SBEP, relevant information on the County and State websites, the U.S. Business Administration, and SCORE (Service Corps of Retired Executives).

Development Services:

The City's Development Services Department (DSD) serves as the primary point of contact for many business owners and interacts with thousands of builders and developers every year. Unfortunately, DSD struggles to meet the demand for assistance and permit processing from business owners. In any given month, the department receives 3,000 to 5,000 calls with wait times exceeding ninety minutes. Those who attempt to come into the department office face walk-in wait times over two hours.⁵

Similar to the OSB, direct dependence upon DSD staff could potentially be alleviated through the inclusion of additional resources and information on the City's website. Although some helpful resources for small business owners are available on the Development Services website (such as basic permit processing, government codes, and step-by-step tutorials of the development process), very little of the information addresses what exactly a person must do in order to comply with the City's permitting regulations. The following represent best practices from other cities that could improve DSD's accessibility online.

Check Status of a Plan Review Online

Several cities including Chicago⁶, Milwaukee⁷, Columbus⁸, and Portland⁹, include an application on their websites which allows users to easily check the status of previously submitted plan reviews online, a responsibility currently directly handled by DSD staff in the City of San Diego.

"New Users" Section

The City of Portland, Oregon Development Services website includes a user friendly section titled "New Users" geared toward providing information to those unfamiliar with the development process.¹⁰ Included in this section are a description and flowchart of the development process, a description of how to apply for simple permits online, timelines of typical development processes, and a "Do I Need a Permit?" section. The "Do I Need a Permit?" section asks users basic questions about their development project and then directs the user to links (including downloadable permits applications) that apply to their type of project.

⁵ Correspondence with City of San Diego's Development Services Department, April, 2010

⁶ http://www.cityofchicago.org/city/en/depts/bldgs/provdrs/stand_plan/svcs/building_permit_status.html. Accessed June 21, 2010.

⁷ <http://www.mkedcd.org/planning/index.html>. Accessed June 21, 2010.

⁸ <http://www.development.columbus.gov/PermitsRegistrationLicenses/licregcontractors.asp>. Accessed June 21, 2010.

⁹ <http://www.portlandonline.com/bds/index.cfm?c=36664>. Accessed June 21, 2010.

¹⁰ Ibid

RECOMMENDATION:

The DSD website should be updated to include features similar to those described in the best practices examples above. As a short term improvement to the DSD website, a section similar to the “New Users” section on the City of Portland website should be added. This section should introduce the development process to the uninitiated and provide a description and link to tools already on the DSD website including Development Process Step-By-Step, ePermitting, and online forms and applications.

In addition to increasing the accessibility of current tools provided on the website, DSD should expand the tools currently offered on its website by including a tool which allows users to check the status of a plan review online. Including this tool on the DSD website will reduce the necessity for business owners to call DSD staff in order to receive updates regarding their development projects. As mentioned in the previous section, many small businesses have trouble accessing the information about what steps they must take to comply with the cities various regulations and permits. Making this compliance information easily accessible online reduces the amount of time that must be spent by small business owners and reduces the need for direct interaction with City staff. Currently, information is not easily accessible online for business owners because it is (1) distributed across various departments or agencies websites and/or (2) not available on the City’s website altogether.

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Current Efforts

The City and the OSB have made recent efforts to improve the accessibility of information and resources for small business owners through an initiative funded by a \$95,000 grant from the U.S. Small Business Administration. As part of this effort, the OSB is working to create a “one-stop” resource on the City’s website which consolidates all of the tools and information currently available on various departments’ websites into a single location. Unfortunately, consolidating the City’s current resources only addresses a fraction of the accessibility issue, as it does not address the problem of resources currently not provided anywhere on the City’s website.

The City of San Diego is taking steps toward providing additional permit information online as well as allowing for online processing of some permits. The Police Department is currently working to create an application which allows businesses to apply, renew, and pay for alarm systems permits online.¹¹ The Police Department has indicated that the reduced burden of permitting paperwork will save the department “significant time and money”. In addition, the City Treasure’s Office is working to allow business owners to apply for business tax certificates online. Applications would be forwarded to the appropriate departments for review and certificates sent to business owners upon approval.

¹¹ City of San Diego, Budget Review Committee, Meeting Minutes, April 30, 2010.

Other cities, such as New York City¹² and City of Louisville, Kentucky¹³, have made strides in improving the availability of information and resources for small business owners. Efforts in these cities have included the creation of “one-stop” resources for small business owners which allow users to meet all federal, state, and local requirements through a single point of contact.

Similar to the current initiative in the City of San Diego, NYC Business Express (New York City’s one-stop resource), consolidates all relevant business compliance information into a single location. However, unlike the City of San Diego, the NYC Business Express Wizard additionally provides automated individualized information and assistance and the ability to apply for permits online.

The screenshot shows the NYC Business Express Wizard interface. At the top, there is a navigation bar with the NYC Business Express logo, a 'Wizard' tab, and other tabs like 'Incentives', 'Apply', and 'Index'. A search bar is also present. Below the navigation bar, there are five steps: '1. Sector', '2. Structure', '3. Place', '4. People', and '5. Product', with 'RESULTS' at the end. The '1. Sector' step is currently selected. On the left side, there is a 'Wizard Help' section with instructions and contact information. The main content area displays the question '1. In which sector will your business operate?' followed by a list of 20 sectors, each with a radio button. The sectors are: Accommodations, Administrative and Support Services, Arts, Entertainment and Recreation, Construction, Educational Services, Finance and Insurance, Food and Beverage Services, Health Care, Information, Management of Companies and Enterprises, Manufacturing, Real Estate, Rental and Leasing, Retail, Services, Social Assistance, Transportation, Warehousing and Storage, Waste Management and Remediation Services, and Wholesale Trade. A 'Continue' button is located at the bottom right of the main content area. The footer contains copyright information and links to 'Contact Us', 'FAQs', 'Privacy Statement', and 'Site Map'.

NYC Business Express Wizard Incentives Apply Index Search: Go Home Help Feedback

Wizard Help

Please click the icon next to each question for more information.

All questions are required. Visit our [FAQ page](#) to learn which business sectors are currently supported by NYC Business Express.

For support opening and operating a business, call 311 or visit [NYC Business Solutions](#).

For assistance using NYC Business Express, visit our [Help page](#), [email us](#), or call 311 and ask for NYC Business Express.

1. Sector 2. Structure 3. Place 4. People 5. Product RESULTS

Step 1: Sector Scenario: New

Page: 1

1. In which sector will your business operate?

- ☐ Accommodations
- ☐ Administrative and Support Services
- ☐ Arts, Entertainment and Recreation
- ☐ Construction
- ☐ Educational Services
- ☐ Finance and Insurance
- ☐ Food and Beverage Services
- ☐ Health Care
- ☐ Information
- ☐ Management of Companies and Enterprises
- ☐ Manufacturing
- ☐ Real Estate
- ☐ Rental and Leasing
- ☐ Retail
- ☐ Services
- ☐ Social Assistance
- ☐ Transportation
- ☐ Warehousing and Storage
- ☐ Waste Management and Remediation Services
- ☐ Wholesale Trade

Continue

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¹² <http://www.nyc.gov/portal/site/businessexpress>. Accessed June 21, 2010.

¹³ “Best Small Business Practices” Report from the United States Conference of Mayors (June 2003)

Below is a table comparing the resources offered by the City of San Diego's website and New York City's Business Express Wizard.

Offered Services	City of San Diego Website	NYC Business Express
Basic information about the permitting process	X	X
Basic description of permits that may be required based on type of work	X	X
Basic description of permits that may be required based on business location (city)	X	X
Easily accessible (basic) description of permits that may be required based on business industry		X
Personalized checklist of permits that are required based on business specifics		X
Ability to apply online for permits	(Some) ¹⁴	X
Option to complete more than one permit at once online		X
Checklist of information one needs to have in order to fill out the applications for all of the required permits		X
Interactive incentives estimator		X

RECOMMENDATION:

The City should institute a pilot program to develop an online “one-stop” business resource similar to the NYC Business Express Wizard. The program would assist business owners with less-complicated projects and use phone and appointment services as a supplement for more complicated matters.

The program could be instituted in phases, considering only a subset of permit types, regulations, and industries with each phase. New York City started the wizard at first to only include the restaurant industry, and has worked its way up to providing this service to about twenty different sectors since 2006.¹⁵

¹⁴ Development Services offers electronic permit processing for water heaters, electrical outlets, gas lines, and simple plumbing work. Business License renewals are available online.

¹⁵ Correspondence with New York City's Business Services Department, April, 2010

The phase in approach allows the City to carefully monitor the implementation of the program and to spread the investment costs over several years. New York City staff indicated that an initial pilot program utilizing one sector (restaurants) cost approximately \$700,000 to implement. However, it should be recognized that City investment in such a program could be substantial; the total investment in the entire NYC Business Express program by New York City was \$27.4 million¹⁶ over the four-year period from FY 2006 to FY 2010. Therefore, the costs associated with just implementing of a business wizard for one sector should be verified. Expansion into other business sectors should be considered a longer-term (3-5 years) goal.

Further “Single Point of Contact” Strategies

The complexity and detail of many of the permitting and plan review processes administered by the DSD can be a source of frustration for business owners, especially uninitiated and small business owners. In response, the City of San Diego has established two programs to provide liaisons between City staff and small business owners. In 2004, DSD established the Community and Customer Ombudsperson, a City employee tasked with providing DSD customers with supplementary personalized assistance and information. In addition to the DSD Ombudsperson, the City’s Small Business Ambassador also serves as a liaison between small business owners and various city departments, including DSD. Despite these measures, working with DSD consistently remains one of the most commonly cited issues for local small business owners.

Best practices from other cities, such as City of San Jose¹⁷ and City of Portland¹⁸, suggest that expanding the City of San Diego’s current efforts could help to reduce frustration of small business owners. Development Services departments within the cities of San Jose and Portland provide programs for small businesses that not only designate staff members to provide additional information and assistance, but also to serve as “project managers” who walk business owners through each step of the development permitting process. Providing DSD customers with a single point of contact across all aspects of the development process facilitates clear communications between the customer and City staff and provides predictability for DSD customers. Further description of these programs is provided below.

City of San Jose

The City of San Jose’s Small Business Ambassador Program consists of 10 city employees (5 from the DSD) who serve as a liaison between the City and small businesses (business with 35 employees or less). Small Business Ambassadors assist those not familiar with the development review process by serving as a single point of access to DSD staff, answering personalized inquiries, creating detailed checklists for completing the permitting process, and providing preliminary and expedited plan review.

¹⁶ New York City FY 2011 Executive Budget Hearing, May 25, 2010.

¹⁷ <http://www.sanjoseca.gov/building/SBAlinks.asp>. Accessed June 24, 2010.

¹⁸ <http://www.portlandonline.com/bds/index.cfm?c=48323>. Access June 24, 2010.

City of Portland

The City of Portland devTeam is a group of development employees tasked with serving as “project managers” for DSD customers. DSD customers are assigned a single devTeam liaison from early stages of project design to final inspection and permit issuance. Liaisons will also routinely check in with DSD staff across the review process to ensure they have all necessary information and materials to remain on a timely review schedule.

RECOMMENDATION:

The City should expand its current efforts within the DSD department to provide additional assistance to small business owners. In conjunction with the Office of Small Business, DSD should develop a process for identifying those business owners who are most in need of individualized assistance and assign to those business owners a specific DSD staff member to serve as their single point of contact and project manager throughout the entirety of their development process.

2 Reform 2: Strengthen and Expand Business Improvement Districts (BIDs)

3 Reform 3: Redefine the Role of the City’s Office of Small Business

Office of Small Business:

The Office of Small Business (OSB) has been a resource for local entrepreneurs starting or expanding their businesses in the City of San Diego since 1992.

Currently, the OSB oversees the City’s Business Improvement Districts, the Maintenance Assessment Districts, administration of the Small Business Enhancement Program, and other programs created to aid the local small business community.¹⁹

- Maintenance Assessment Districts: Districts that assess themselves extra fees in order to receive more services than what is normally provided by the City. These districts also serve as a way for small businesses to voice their concerns to the City government.²⁰
- Small Business Enhancement Program: A program that provides a total of approximately \$1.6 million for services, grants and incentives to small businesses. This includes funding several community organizations, BID Council, the funding of a Small Business Ambassador position, and other programs promoting the success of small businesses.²¹

¹⁹ Presentation to Citizens Revenue Review and Economic Competitiveness Commission on February 25, 2010 by the Office of Small Business

²⁰ <http://www.sandiego.gov/park-and-recreation/general-info/mad.shtml>. April 19, 2010.

²¹ OSB Presentation to Citizens Revenue Review and Economic Competitiveness Commission. February 25, 2010.

- **Small Business Advisory Board:** The Small Business Advisory Board (SBAB) is comprised of eleven representatives appointed by the Mayor tasked with advising the Mayor and City Council on matters that affect the success of small businesses. Specific issues considered by the SBAB are allocation of Small Business Enhancement grant funds, working to amend City codes and regulations to make them more realistic for business owners, and serving as a liaison between small business owners and various City departments.

Business Improvement Districts (BIDs)

BIDs are designated geographical regions of the City in which business owners have collectively chosen to levy a self-assessment for the purpose of funding promotion of an improved business climate. The City's authority to establish BIDs is granted through California law (Streets and Highways Code 36000-36671; established 1965 and amended 1989, 1994). A BID is formed if the majority of business owners in a proposed district support its establishment in a mailed election. A non-profit business association that is appointed by the City Council carries out operations of the BID.

The BID's governing business association submits an annual budget to the City Council for approval that describes the proposed assessments to be paid by all business owners and the projects the assessment revenues will fund. Upon approval of the budget by the City Council, the City collects the assessments on behalf of the BID. Administration of the assessments by the City and remittance of the revenues to the BID are governed by an annual agreement between the BID and the City Council.

There are currently 18 BIDs in the City of San Diego, raising more than \$1 million dollars in assessment fees annually.²² The City's Office of Small Business (OSB) carries out administration of the annual assessments. Pursuant to the City's current annual agreement with its various BIDs, the OSB remits the assessment revenues on a monthly cost reimbursement basis. Although Section 5.3.6 of the City's current annual agreement states that these reimbursements must be made no later than 30 days following application for reimbursement, correspondence with BID association and City staff indicates that the reimbursements can commonly take two months or longer. Monthly applications for reimbursement can create a large administrative burden for both City and BID staff, and delayed reimbursements can create significant cash-flow problems for BIDs.

Best Practices From Other Cities:

Several other major U.S. cities, such as New York City and City of San Jose²³, have implemented an assessment reimbursement plan that removes some of the excess administrative burden created by the City of San Diego's current practices. Unlike the City of San Diego, reimbursements in New York City and City of San Jose are made on a biannual (as opposed to monthly) basis. This reduces the frequency of paperwork for both BID and City staff. In addition, reimbursements are made in advance (instead of reimbursing costs as incurred), allowing BIDs to avoid cash-flow problems. Below is a more detailed description of BID administration in New York City.

²² <http://www.sandiego.gov/economic-development/business-assistance/small-business/bids.shtml>. Accessed June 15, 2010.

²³ Agreements between City of San Jose and Downtown Business Improvement District and Willow Glen Business Improvement District

New York City, NY

New York City, a city with 64 Business Improvement Districts, has a very different system for the administration of the BID funds and for communication between the City and the districts. New York has three representatives from the City on each BID that are automatically members of the District's Executive Committee, including representatives from the Mayor's office, from the Borough President's office, and the local Councilmember's office. This "upfront" decision-making process allows enough checks and balances for the BIDs to receive their funds biannually. The BIDs are also required to submit a third-party audit of their expenses on an annual basis to make sure that the funds were spent correctly.

Other Potential Financing Procedures:

San Diego BID Council representatives have an alternative financing model that they believe would alleviate the problems created by the current BID financing policies. Under the current system, BIDs are provided a monthly report from City staff detailing the total assessments collected in the previous month. As a remedy to the cash-flow problems presented by the current financing procedure, at the beginning of each month the City could transfer the total of the previous month's assessments to the BID. This would provide BIDs with a predictable monthly cash flow from which they can reliably draw to budget the month's expenditures.

RECOMMENDATION:

The City of San Diego should alter its current BID financing policies to avoid undue burden on BID and City staff and reduce BID cash-flow problems. The models presented by New York City, City of San Jose, and the San Diego BID Council all suggest that the City should shift from a cost reimbursement financing system to a system of periodic appropriations. It should be noted, however, that such a system would reduce the oversight the City currently has over BID finances. In response, the City should require the BIDs to present audited annual financial statements to the City each year.

The City's current assessment reimbursement practices are governed by the City's annual agreement with the BIDs. Therefore, to institute the above recommendation, the City would need only to amend the terms of this annual agreement.

Further, the City should explore making BIDs the primary vehicle for technical assistance and issue advocacy for San Diego's small businesses. Specifically, the opportunities offered by expanding BIDS to cover a larger portion of the City as well as the potential of BIDs to provide additional value to specific industries should be identified.

4 Reform 4: Consolidate Small Business Enhancement Program Grants

In 1995, the City Council created the Small Business Enhancement Program (SBEP) for the purpose of funding support and advocacy efforts for San Diego's small businesses. The funding and

appropriations procedures for the SBEP are governed by Council Policy 900-15. Funding for the SBEP is provided by an annual General Fund appropriation based upon the estimated number of small businesses currently located in the City of San Diego. SBEP funds are allocated across various programs including Small Business Enhancement grants, Small and Disadvantaged Businesses Development projects, Micro-District and Commercial Neighborhood grants, and offsetting the costs to businesses of City services and fees.

The Small Business Enhancement grants, totaling \$120,000²⁴, are distributed through a competitive application process that is administered by the City's Small Business Advisory Board. Funding is provided to local non-profit organizations for specific programs and projects, and any single organization is allowed to apply for funding for up to two programs or projects per year.

The table below details the programs funded through the Small Business Enhancement grants program.²⁵

Organization	Funding	Program Description
Able-Disabled Advocacy, Inc.	\$11,588	Continue CODE-Outreach to disabled community on starting small businesses through contact with 30 organizations and hosting 4 workshops serving 40 individuals.
ACCION San Diego	\$21,600	Provide small business information, referrals and loans ranging from \$300-\$35,000 to entrepreneurs; they will serve approximately 50 start up or existing entrepreneurs.
Alliance for African Assistance	\$12,000	Provide door to door community outreach, giving businesses access to professionals who will help them qualify for outside financial support.
Asian Business Association	\$5,920	Provide up to five informational seminars on educating small businesses on strategies to become certified Minority Business Enterprises and to position them for contracting opportunities.
Greater San Diego Business Association	\$20,835	Provide six, two hour workshops with 50 to 80 participants and 6 webinars with 100+ viewers to equip small business owners to grow.
Mabuhay Alliance	\$12,000	Provide technical assistance through a 32 hour educational program through USD; provide micro-lending to new or existing small businesses through the Valley EDC; continued participation in the Supplier Diversity Program.
SDCOC	\$21,600	Continue providing assistance to San Diego's small/emerging businesses with federal, state, local and prime/general contractor government contracting through workshops, counseling and bid finding services and notifications with outcome of \$25 million awards for clients and for 30 new clients to receive first-time government awards.
SBDITU	\$16,800	Provide one-on-one technical assistance services and training resources to assist potential and existing small businesses achieve success.
Union of Pan Asian Communities	\$21,600	Educate current and potential small business owners to utilize technology and information systems to solve business problems, specifically in tracking revenues and expenses. The program targets low and moderate income populations, limited English proficient, minority, disabled, and women entrepreneurs.

²⁴ FY 2009, Council Policy 900-15

²⁵ City of San Diego, Office of Small Business, SBEP Matrix Requests FY 2010

Several programs funded through the SBEP provide small businesses with financial and technical assistance. Although these programs do not necessarily provide duplicative services, it is unclear whether adequate program information is provided to ensure that programs do not overlap.

In fact, the SBAB has discussed restructuring of the SBEP application process.²⁶ Among the stated concerns with the current application process were that it did not request detailed budgets with line item expenditures and did not require presentation of quantifiable outcomes. The SBAB plans to alter the SBEP application process to accommodate these features.

RECOMMENDATION:

The current Small Business Enhancement grant application procedure should be restructured to incorporate practices that ensure the efficient distribution of taxpayer dollars. To address the concerns expressed by the SBAB, the application should request a detailed budget of the program to be funded and a potential metric to be used to evaluate the program's effectiveness.

To ensure that funded programs do not provide duplicative efforts, the application process should be reoriented to provide funding for specific outcomes or services, as opposed to specific organizations or programs. The SBAB should determine specific categories of small business assistance and advocacy they wish to promote (financing assistance, technical assistance, contracting, etc.) and solicit applicants interested in fulfilling the identified needs in each category. Applicants should be evaluated competitively based upon their ability to fulfill the specific needs in a particular category, and funding should be provided only to the most qualified applicant in each category.

Such a process could also use the CDBG allocation structure as a guide. Under this model, the Council sets overall program goals, applicants make submissions and allocations are decided based upon the established goals. The anticipated result of such changes would be fewer, yet larger allocations, with the net outcome of more comprehensively aiding programs that deliver desired outcomes.

5 Reform 5: Streamline Special Event Permitting and Management

Given the importance of tourism to the City of San Diego and the important role that special events can play in small business promotion, the City should focus on nurturing the success of special events.

All special events held in the City of San Diego are governed by Article 2, Division 40 of the City's Municipal Code. The stated purpose of providing regulation of special events in the City is, "to supplement land use regulations, to provide a coordinated process for the regulation of certain activities to be conducted in conjunction with Special Events, to ensure the health and safety of

²⁶ City of San Diego, Small Business Advisory Board, Meeting Minutes, September 8, 2009.

patrons of Special Events, to prohibit illegal activity from occurring within Special Event Venues, and to protect the rights and interests granted a Special Event Permit holder. It is further intended to create a mechanism for cost recovery and revenue sharing for Commercial Special Events without having an adverse effect on those Events that contribute to the community.”

All special events held on public property or that have a significant impact on public services or facilities must obtain a Special Event Permit from the City. Coordination of the Special Event Permitting process is handled by the City’s Office of Special Events (OSE). All event organizers are required to submit a 28 page permit application that requests specifics about the event organizers, basic information about the event itself (location, time, purpose), a site plan, a plan to provide security and medical services, an accessibility plan (to meet City, State, and Federal Disability Access Requirements), a parking and transportation plan, information about required safety and sanitation facilities, and information about food and alcohol that will be provided at the event. The detailed application was created to assist event organizers in ensuring that they meet all federal, state, and local laws and guidelines. Along with a completed application, event organizers must pay a standard permit-processing fee of \$150.

The City’s Municipal Code outlines the conditions under which the OSE should accept or deny an application for a Special Event Permit. At the discretion of the OSE in coordination with other City departments including Police and Fire Protection, the event should include adequate provisions to ensure public safety and health are protected, not create undue burden on city services and facilities, limit disruption to traffic and public transportation, and not interfere with other special events for which permits have already been issued.

Various departments within the City (such as Police, Fire-Rescue, and Planning) are required to review specific details of the event to ensure that these guidelines are being met. These departments have the final say in acceptance or denial of the permit and also have the authority to modify the event plans to protect public interest.

In addition to sufficiently promoting the guidelines listed above, all commercial events are required to provide for cost recovery of any city services used for the event unless otherwise expressly provided by the City Council. Two mechanisms exist to provide for cost recovery of City services. The City may bill the special event organizer for all city services provided, or alternatively the City and the event organizer may enter into a revenue sharing agreement in which the City receives a portion of the revenue generated from the event.

In many cases, the Special Event Permit alone is not sufficient to meet federal, state, and local requirement for holding a special event. Organizers are often required to obtain separate permits through other departments within the City (such as Planning, Fire-Rescue, and Parks and Recreation) and to pay the associated permitting fees in addition to any fees associated with the Special Event Permit.

These additional permits can include a public assembly permit, firework/pyrotechnic/special effect/laser permit, tent, canopy, or membrane structure permit, trade show or exposition permit, food permits, temporary use permit, entertainment permit, building permit, electrical permit, alcohol use permit, park use permit, and lake use permit.

Issues with Special Event Permitting

As a result of correspondence with local businesses and event organizers it has become apparent that some of the established practices within the Special Event Permit process can be counterproductive and discouraging. These less-than-optimal experiences can be characterized by three main issues:

- 1) Lack of transparency and cooperation from City departments and staff
- 2) Excessively high and unexpected fees
- 3) Difficult and lengthy permitting process

Event organizers are commonly required to work with a private security firm to establish comprehensive security and safety plans. As a requirement of the Special Event Permitting process, organizer's security plans are reviewed by official in the City's Police Department. These officials have the discretion to require modifications or additions to the event organizers security plans in the interest of public safety, including mandating the presence of paid City officers at the event. Unfortunately, this process can be confusing and discouraging to event organizers as the rationale for increased requirements is not always apparent.

Event Organizers are also required to have their plans reviewed by the City's Fire-Rescue Department. As with the Police Department, these officials have the discretion to require modifications to the event plans to promote public safety. However, event organizers have found that the requirements and guidelines provided by City officials are inconsistent or confusing, often changing based upon which staff member was contacted.

Despite the lack of specific rationale for requiring City officials at special events, commercial event organizers are required to provide for cost recovery of all city services employed in the execution of their event. For example, as of July 1, 2009, commercial event organizers were required to pay \$96 an hour for police officers and \$30 an hour for traffic control. This can result in discouragingly high bills for special event organizers. In addition to costs associated with city services, many special events require permits from other City departments that result in additional and often unexpected fees to be paid by event organizers.

Comparison to Other Cities

The table below compares the Special Event Permitting process in San Diego to other large cities in California.

City	San Diego	Anaheim	Chula Vista	Long Beach	Riverside	Sacramento	San Jose
Permit Fee	\$150 ^a	Varies	\$100	\$1,905 ^b	\$75	\$50-200	\$275-\$1,400
Length of Permit Application (pages)	28	Varies	3	35	19	5	19
Office specifically for special event permitting	X			X	X	X	X
Additional Permits Required	X	X	X	X	X	X	X
City Service Cost Recovery Fees	X	X	X	X	X	X	X
City Service Fees can be waived by staff		X					X ^c
Staff has authority to require modifications to site, security, and emergency service plans	X	X	X	X	X	X	X

^{a)} Plus additional \$10 per day past submission of application 60 days in advance

^{b)} Plus 7.75% administration fee

^{c)} Currently in process of amending municipal code to provide for allowance

In general, many components of the City of San Diego permitting processes are found in most other major California cities; this includes instituting cost recovery fees for city services, requiring review and approve from Police and Fire officials, and requiring additional permits to be obtained from other departments.

Review of the table above leads to the following conclusions:

- The City of San Diego's permit application is longer than four of the six other cities considered.
- The City of San Diego's permit application fee is reasonable when compared to other cities.
- The City of San Diego is part of the majority of cities that have established an office to centralize special event permitting.
- Although some cities have created a practical mechanism to waive some cost recovery fees, the City of San Diego has not.

These conclusions suggest that when compared to other major California cities, San Diego could take some steps to make their Special Event permitting process more business friendly.

City of San Jose

On April 13, 2010, the San Jose City Council supported a resolution to reform its policies related to special event fees. The reforms came as a response to recent cancellations by several event organizers that had traditionally held their events in San Jose, including the America Festival, which saw its special event fees increase 60% between 2008 and 2010.

The resolution recognized, “In several cases, the events’ operations generate significantly more revenue to the City-and enormously more economic impact-than the City collects in fees. For example, six events, the Rock n’ Roll Marathon, San Jose Jazz, Tapestry Arts, ZerOl, the Mariachi Festival, and Tour of California--incurred approximately \$174,000 in City costs that were billed to event producers in 2006 and 2007, yet they generated an additional \$1.4 million in sales tax, transit occupancy tax, and Parking Fund revenue for the City.”

The reforms included two major provisions, (1) immediately provide the City Manager authority to deviate from full cost recovery policies in order to avoid cancellation of events that would generate more net tax revenue than it would cost the city is uncollected fees and (2) ask the Community and Economic Development Committee to establish specific criteria that can be used to allow cost recovery fees to be waived in the future. The resolution suggested that the criteria might include revenue generated to the General Fund, Parking Fund, and other City funds, general economic impact, attendance levels, longstanding successful event history, publicity brought to the City, proven record of safe management, and whether or not the event was unique to San Jose.

RECOMMENDATIONS:

In light of concerns raised by event organizers in the City of San Diego, it would be prudent for the City to consider measures to ensure the attractiveness of San Diego as a venue for future special events. Three recommendations should be considered to meet this goal, (1) adopt a cost recovery fee waiver mechanism similar to the one proposed in the City of San Jose, (2) establish a more systematic and transparent approach to determining the number of public safety officials required at an event and (3) consider allowing the Special Event Permit to supersede permit requirements from other City departments.

In order to implement a plan similar to the City of San Jose, San Diego would need to amend §22.4006(b) and §22.4022 of the Municipal Code, providing the Office of Special Events with the authority to waive some or all cost recovery fees in the event that specific criteria are met.

The criteria considered should include positive net tax revenue generated, economic impact (increased revenues for tourism and hospitality industries), publicity provided to the City as a result of the event, past record of safe and successful event management especially in the City of San Diego, and non-monetary benefits provided to City residents and taxpayers (increased cultural diversity, social networking, exchange of ideas, etc).

To establish a more transparent process for determining the appropriate number of public safety officials required at an event, the City could consider two changes. First, the City could determine a collection of frequently used or requested venues and develop canned security plans for these venues. Doing so would allow the City to provide event organizers with reasonable upfront estimates of the costs associated with the use of safety personnel, avoiding potentially unexpected costs from being imposed on event organizers.

The City could also make available to potential event organizers documents describing the procedures followed by public safety officials in determining the number of City personnel required. Should these documents not exist, they should be created as a reference for future City officials and event organizers.

Finally, the City could consider consolidating other permits into the Special Event Permit. For example, the Fire-Rescue department reviews most event plans during the Special Event Permit process. During this process, the Fire-Rescue department could include Special Event Permit compliance with regulations commonly enforced by other permits issued separately by the Fire-Rescue department as their criteria for approval (public assembly, fireworks, tents and canopy permits). The event organizer would then be exempt from applying for these separate permits, reducing time and cost requirements for event organizers.

6 Reform 6: Explore Countywide Business Licenses

The County of San Diego is comprised of the seventeen distinct municipalities and the unincorporated areas. Currently, each municipality requires a business license (or permit) for each business owned and/or operating within the City²⁷, and all but three of these cities (Encinitas, Poway and Solana Beach) have a business tax that must be paid in order to receive the business license.

Each city has different fee and tax rates based on a flat tax or fee, a gross-receipts tax, a tax based off of the number of employees, or a combination of the above.

As a long-term step to consolidated and uniform governmental regulations on small businesses, the City should explore the feasibility and potential development of a countywide business license, as well as a countywide permit for specific types of small businesses.

7 Reform 7: Expand Access to City Contracting Opportunities

The City of San Diego contracts with various outside parties to procure goods and services necessary to conduct the operations of the City. The City's Municipal Code (§2.2.30 and §2.2.32) governs all contracts negotiated by the City and sets the standards of competitive bidding on City contracts.

Pursuant to the Municipal Code, all Request for Proposals (RFPs) issued by the City exceeding \$250,000 for public works and \$50,000 for non-public works must follow a formal competitive bidding process, with contract details and bidding information available online. All contracts that do not exceed these amounts may be posted online; however the City's Municipal Code does not expressly require it. Should a contract not be advertised, the pool of competitive bidders would be potentially restricted to those businesses currently registered as vendors with the City.

²⁷ Those conducting business only in the unincorporated areas of the County are not required to get a business license or permit. More details may be found online at: <http://www.sdcountry.ca.gov/cs/businesslicenses.html> (last accessed on April 1st 2010).

RECOMMENDATION:

The City of San Diego should require all contracts, regardless of dollar amount, to be posted online in an easily searchable format. Posting all contracts online would ensure that bids are drawn for the greatest possible pool of competitive bidders and provide increased City transparency.

Streamlining Bidding Processes

In addition to dictating which City contracts must be subject to a formal competitive process, the City's Municipal Code (§2.2.3224) also mandates a standard of quality that must be met by all City contractors. §2.2.3224(a) reads, "Prior to awarding a contract greater than \$50,000, the City shall make a determination that the bidder has the capability to fully perform the contract requirements and the business integrity to justify the award of public tax dollars. Among the factors to be considered are: (1) financial resources, including financial sufficiency under California Labor Code Section 2810; (2) technical qualifications; (3) experience; (4) material, equipment, and expertise necessary to carry out the work; (5) a satisfactory record of performance; and (6) a satisfactory record of compliance with applicable statutes and regulations."

To ensure that contractors meet these standards, potential contractors are required to file as a registered vendor with the City, as well as provide various information and supplementary documents related to the contractor's finances and work history. Information requirements vary with the type and value of goods or services provided. All potential contractors are required to register as a vendor with the City by completing a three-page application which requests basic information about the business and must be renewed every two years.

California Assembly Bill 574 (1999) provided municipalities with the authority to require public works contractors to become prequalified prior to bidding on public works contracts. AB 574 outlines that procedures for administering and reviewing prequalification must follow a uniform process, which includes requesting financial statements from all potential contractors.

The City of San Diego requires all contractors wishing to bid on public works contracts in excess of \$250,000 to apply for prequalification. To be prequalified, businesses must complete a twenty-two page application, renewed annually, providing detailed information about the business, accompanied by reviewed financial statements (audited if contract amount exceeds \$15 million), a bonding letter, and a statement of completed construction projects. Some major cities in California, including Fresno and Bakersfield, do not require prequalification on public contracts.

Non-public works contracts and public works contracts less than \$250,000 do not require prequalification; rather they require detailed information about the contractor be provided at the time of response to a bid proposal. In addition, for public works contracts under \$250,000, businesses must complete a two-page application providing basic organizational and financial information. This application must be renewed annually.

Although requiring minimum contractor standards is common practice in most municipalities, requiring annual or biannual renewal of vendor registration and prequalification without the option of filing online (as is the practice in the City of San Diego) creates a burden for businesses and City staff.

Several other cities, such as Atlanta²⁸, Jacksonville²⁹, Long Beach³⁰, and Seattle³¹, have established vendor registration and prequalification processes that reduce this administrative burden by allowing business owners to submit applications online. In addition to allowing business owners to complete applications online, the cities of Atlanta and Jacksonville provide registered vendors with online accounts which allow them to view bids, receive and reply to solicitations, and view payment histories. All of these cities allow businesses to update their online information only when necessary (as opposed to annually) to reduce the instances of duplicate information being provided by business owners and processed by City staff.

RECOMMENDATION:

The City should reform its vendor registration and prequalification processes to allow businesses to apply online. An online application process would reduce the need for businesses to provide duplicative information each year and alleviate administrative burden for City staff.

Submission of supplemental materials that are currently provided with the annual prequalification applications, such as audited financial statements, work history, and bonding letter, could still be required off-line and as a condition of approval of an online application. The City should require businesses to maintain updated information about their firm through an online portal in-lieu of requiring applications to be annually renewed.

Finally, the City should review its requirements to reflect industry standard contracting and qualification processes and requirements. Specifically, the City should seek to identify any requirements imposed on potential bidders that are in excess of industry standards, followed by a review of their justification and potential reform.

8 Reform 8: Resist Tax and Fee Increases

Higher taxes and fees increase the operating costs of small businesses. Over the past two years, a number of fees and rates have increased – most notably those associated with water and permits.

While the City's pursuit of "full cost recovery"³² is worthy in the sense that recipients of services are generally those forced to bear the costs. "Full cost recovery" includes all associated operating costs of the City. Specifically, the City's full labor cost structure (e.g. salaries, retirement benefits and staffing levels) is included when determining fee amounts.

The City's rapid increase in pension costs (as well as the substantial increase in these costs projected for the next 14 years) represents a prime example of transferring the burden of the City's labor cost structure on to small businesses.³³

²⁸ <http://www.atlantaga.gov/Business/DoingBusiness.aspx?section=Business>. Accessed June 21, 2010.

²⁹ <http://www.coj.net/Departments/Central+Operations/Procurement/Doing+Business+with+the+City.htm>. Accessed June 21, 2010.

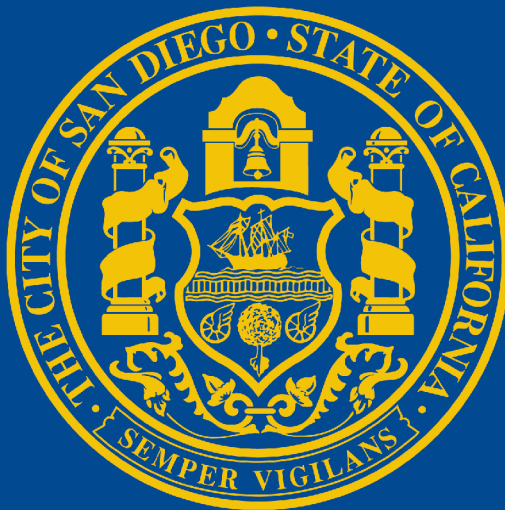
³⁰ <http://www.longbeach.gov/purchasing/default.asp>. Accessed June 21, 2010.

³¹ <http://www2.ci.seattle.wa.us/VendorRegistration/>. Accessed June 21, 2010.

³² See IBA Report 09-52a, "IBA Council Outstanding Requests from FY 2009 Budget Process, Item 3.

³³ See Cheiron presentation to SDCERS, March 5, 2010.

By resisting tax and fee increases on small businesses, the City can avoid adding additional burden to these important economic drivers, while at the same time highlighting the need to address its own unsustainable operating costs.



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